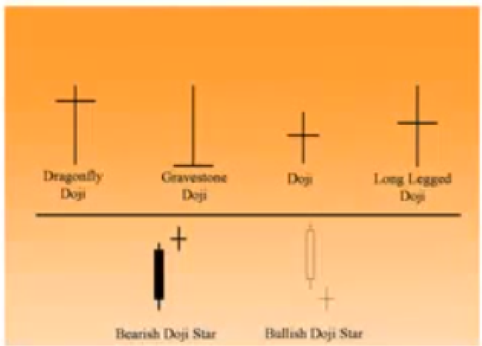
High Probability Price Patterns

Wednesday, January 1, 2014 4:27 PM

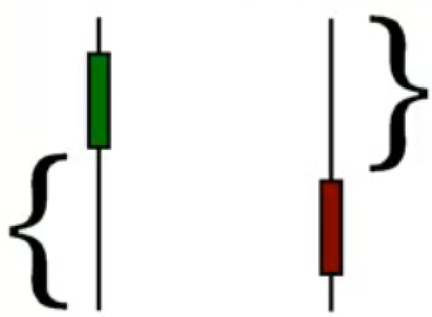
DOJI

- Doji are important candlesticks that provide information on their own. They form when an asset's open and close are virtually equal.
- Alone, doji are neutral patterns. Any bullish or bearish bias is based on preceding price action and future confirmation. They are best seen at the end of a price swing or trend.



HAMMER

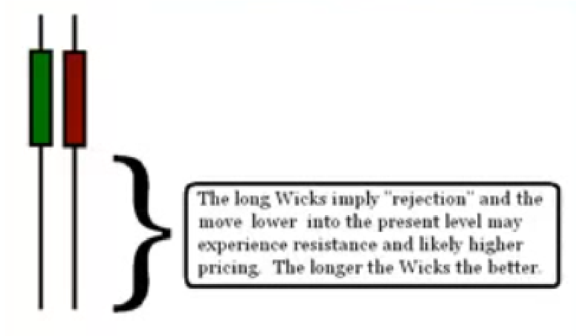
- Hammer candlesticks form when a security moves significantly lower after the open, but rallies to close well above the intraday low. The resulting candlestick looks like a square lollipop with a long stick.
- If this candlestick forms during an advance, then it is called a "hanging man." A hanging man is bearish.
- If price was going down before it forms, then it is a bullish signal, expect a reversal.
- We like to see the red candle at a high going into a key resistance level where we are anticipating a sell.
- These patterns are good to see at key support & resistance levels as well as optimal trade entry areas.
- They can provide confirmation of a trade that we are already in.
- You can also refer to this pattern after the fact as well, to establish a late entry in sync with the current market flow and/or direction.
- Below is an image of 2 different hammers:



- Doji's during a news event are an indication that smart money has tipped their hand and you can trade them after the fact.

TWEEZER

- The tweezer pattern indicates that prices held twice at the exact same level.
- At the lows, sellers were not able to push the asset lower. This is a good pattern on the 4 hour and 1 hour charts at higher time frame S/R levels. If it accompanies an SMT divergence then you should trade maximum risk exposure on that alone.
- It is a solid confirmation that a significant low is priced in.



- Reverse this for tweezer tops.

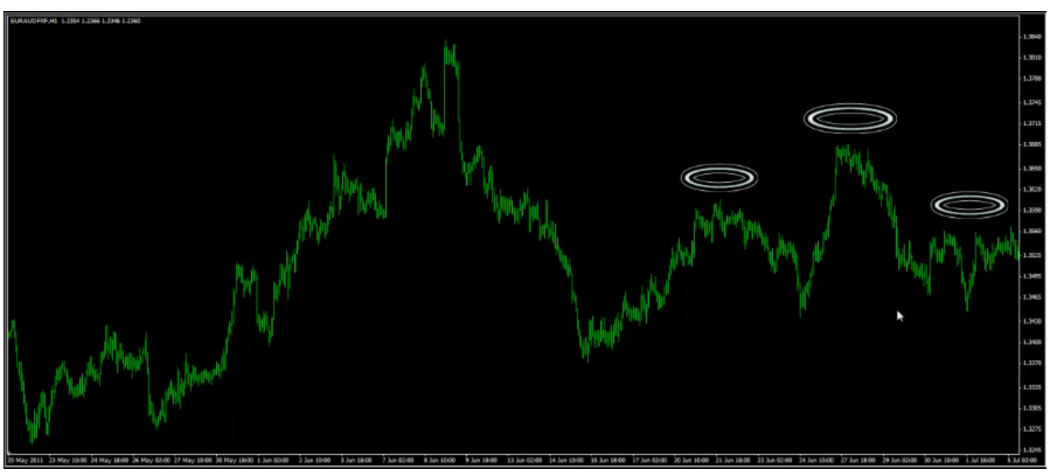
RAILROAD TRACKS



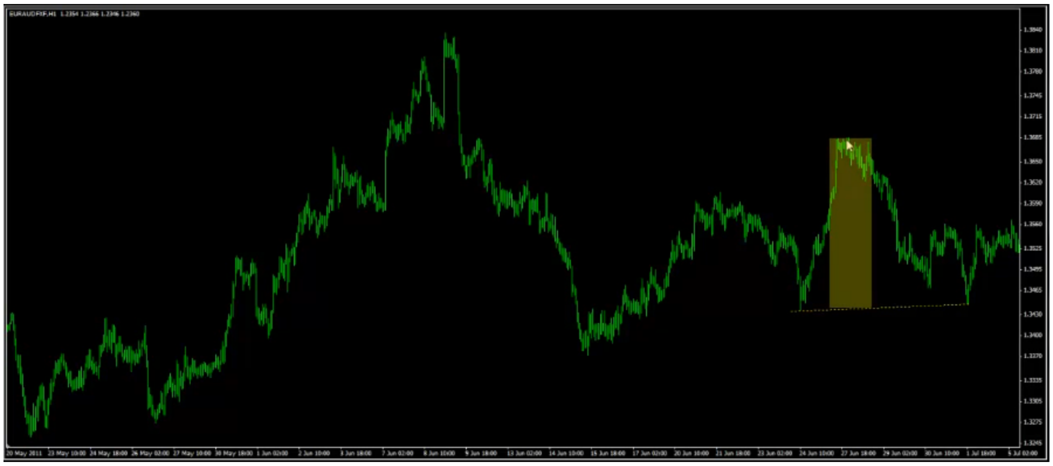
- The railway track is one of the best reversal candlestick patterns you can discover on a chart.
- It actually signifies that the market makers have engineered a reversal. The fact that the asset quickly reverses direction and posts an equally if not larger subsequent candlestick is enormous insight.
- The 2 best candlesticks out there are hammers and railroad tracks. They are strong and reliable. When they form at key levels.. there's nothing easier to trade than that.

HEAD & SHOULDERS

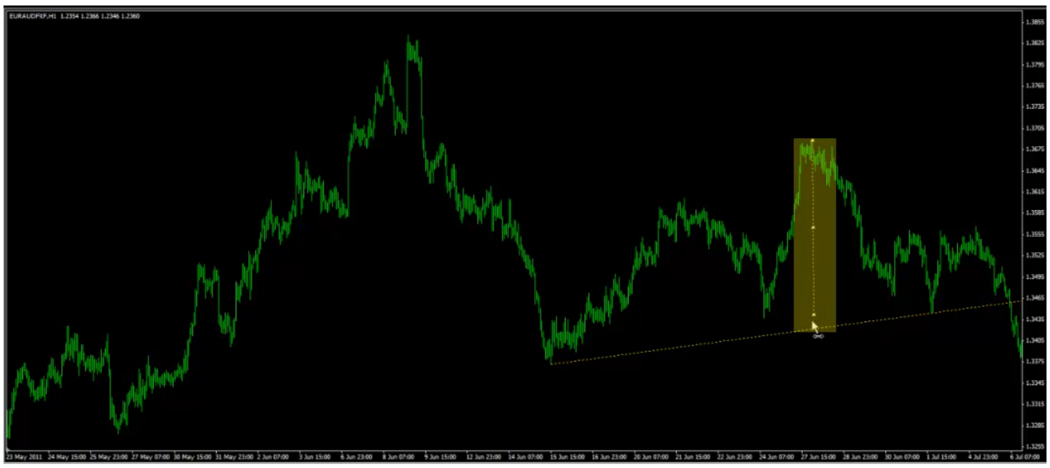
- The head & shoulders formation is typically found at an intermediate term high or low or a long term high or low.
- High probability trade setups are at intermediate term highs and lows.
- The example of a head & shoulders top below is on an hourly chart:



- Once the neckline has been broken, to get a reasonable price objective you can measure the high of the head to the neck line and add that from the neckline down in the example below:



- You can also do it by using the swing low before the one that is a part of the neck line. This will give you a further target to shoot for:





THREE INDIANS CLIMAX REVERSAL

- The Three Indians Climax Reversal is also on the hourly chart below:



- You want to see 3 strong drives higher into an area of resistance. Divergence can be used along with this pattern. You can look for an optimal trade entry short on a lower time frame or you could sell below the most recent swing high.

TRIANGLES



- Below we are drawing a slightly smaller triangle because I am more of a short to intermediate swing trader:



- You would take the low of the triangle to the high as a means for expansion once it breaks through the top of the triangle.
- An ascending triangle is a continuation pattern.
- In this case you would want to be in a buy program.
- Every time there is a buying situation at the pip range of the base to the top of the triangle, you can place the projection on the low of that buying opportunity:



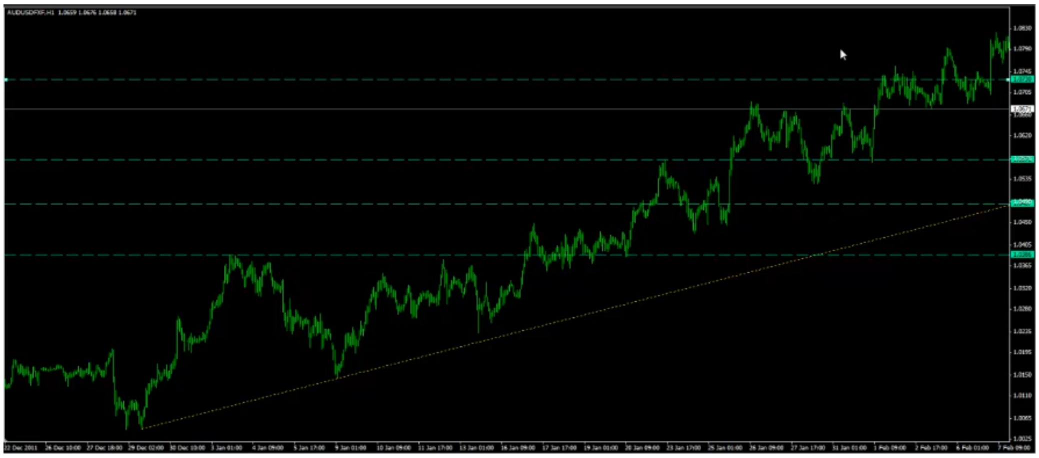
- You can also scale out of your trade with all these different price objectives:



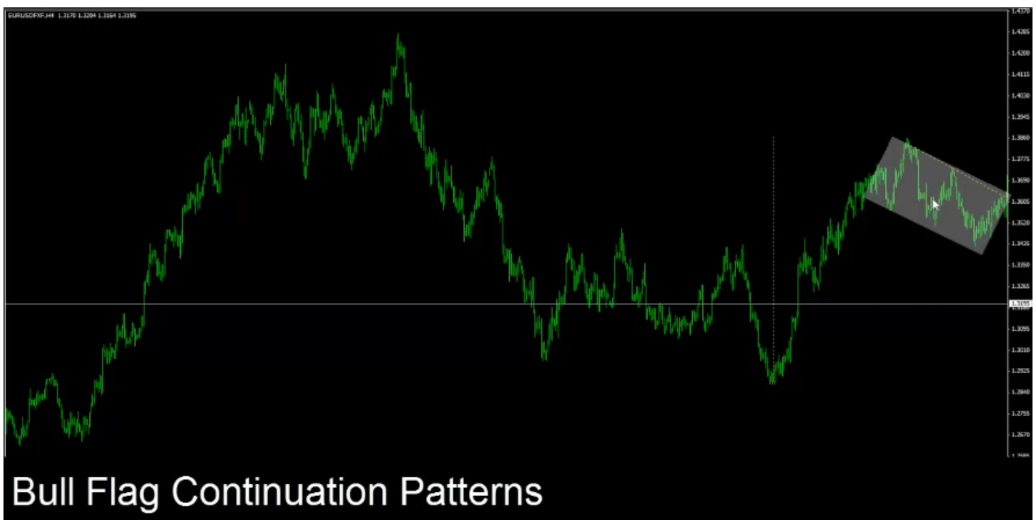
- You would also use the actual break of the top side of the triangle:



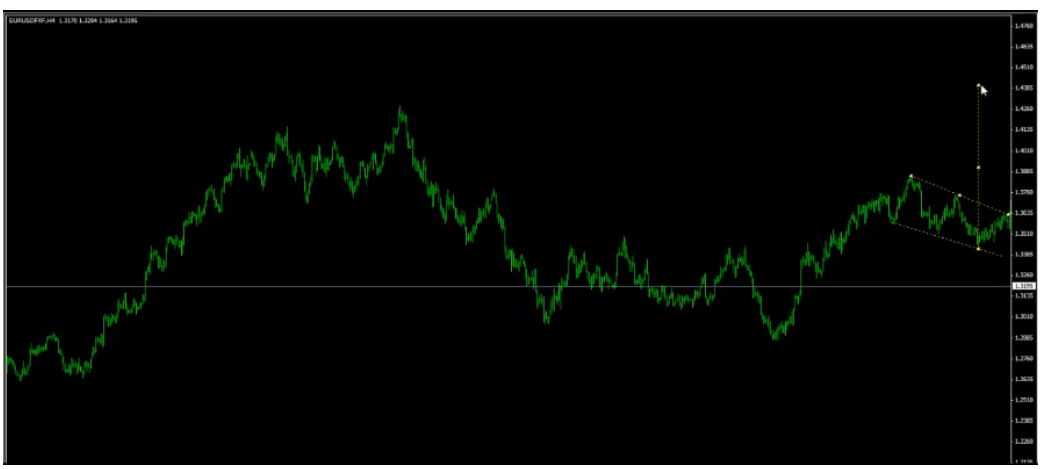
- We can now see that there are many implied support & resistance levels based on these projections:



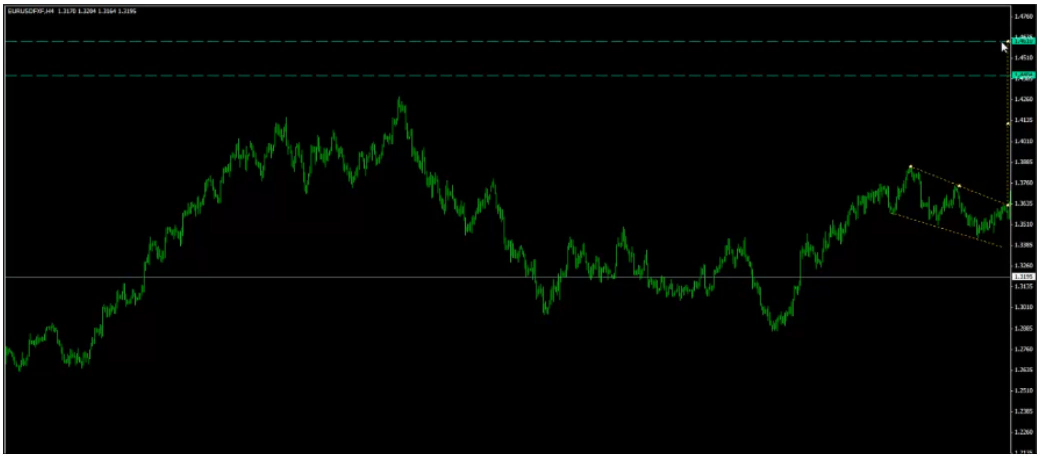
BULL FLAG CONTINUATION



- To get a swing projection for a bull flag, take the flag pole and add it to the low of the flag:



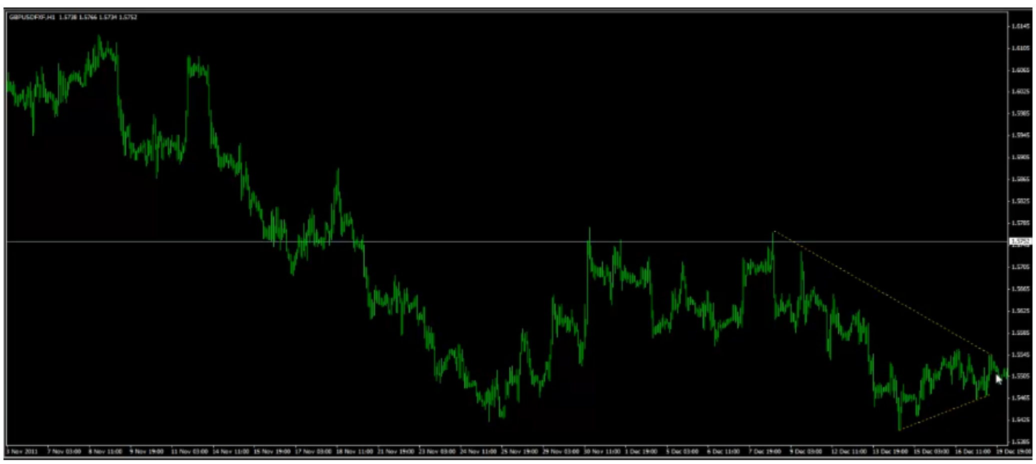
- You can also add it to the breakout level giving yourself a little higher price level to aim for:



- Always look to the left and keep other support & resistance in mind. In the above example, you would want to take profits at the highs on the left of the chart.
- Reverse this concept for a bear flag continuation pattern.

<u>COIL EXPANSIONS</u>

- This example is on the 1 hour chart:



- Once price gets to the very small part of the coil, that should be a red flag that there is going to be a large expansion of price one way or the other. Use higher time frame analysis to get in sync.
- Coils by nature, are just a volatility pattern. They signify an increase in volatility that could translate to a lower or higher move of significance.
- The basis behind this whole pattern is that large ranges come after small ranges.
- To get the swing projection, draw a line across equivalent sides of the triangle like so:





TURTLE SOUP REVERSAL

- The turtles would sell when price made a 20 day high and would buy when price made a 20 day low on the daily chart. They had a lot of losses, but their wins were huge wins.
- Many times it is a false break when price breaks above or below the 20 day high or low. This is what the pattern is based upon.



- Once price forms a turtle pattern there are a lot of ways to compliment it, you can look for extreme reversal patterns such as pivot sell regions, judas swing, optimal trade entry, etc.
- You can also use turtle soup on an hourly chart because it is a universal pattern:



- In the example above, you can sell right into that resistance level or you can wait for the bounce and OTE. There are numerous OTE's in the example above to get short.



- The riptide reversal uses any significant high or low and not just the high or low from the last 20 periods.

ICT REFLECTION

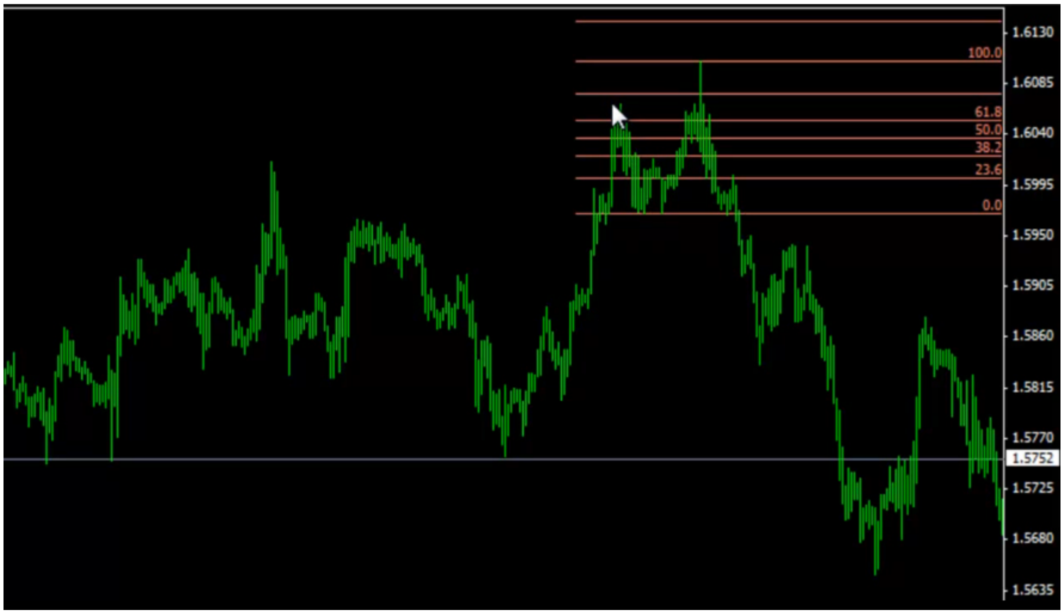
- The ICT Reflection is a reversed optimal trade entry signal that is treated much like a judas swing, stop raid, riptide reversal, turtle soup, etc.:



- Many times you would trade right into the break of that low hoping that it is a raid on stops.
- For a reflection buy like in the image above you would place the OTE line on the low before the move up and the 0% retracement on the high and enter on the 100% retracement.
- On a 2% risk trade you would buy 1% at that 100 level as a stop raid and then you can wait for price to trade up and break market structure and buy the other 1% at the normal OTE entry.



- Sell example below:



OUTSIDE DAY WITH A DOWN CLOSE

- An outside day is any day that has a higher high and lower low than the day before.
- An outside day with a down close is a very bullish scenario. By itself it doesn't mean anything, but when it occurs at a time when we are oversold on the daily chart it does. The next day you would want to be looking for a Judas Swing down to get long. You could also look for optimal trade entry's in the kill zones to get long.
- The oversold indication on the daily chart is based on a 10 period Williams %R. 30 and 70 are the parameters on all momentum indicators for overbought and oversold.

INSIDE DAY

- An inside day is the opposite of an outside day. An inside day has a high that is lower than the high of the previous day and a low that is higher than the low of the previous day.
- Expansion is expected after there is an inside day. Get ready for a range expansion day once you see an inside day.

- Look for clear signs of manipulation to dial in on low risk, high reward setups intraday.